Weekly Economic Review

Low oil prices weigh on exports

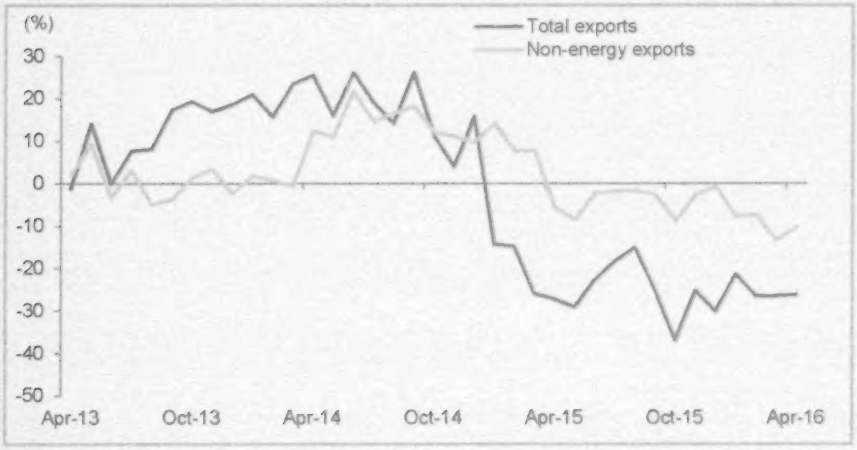
Merchandise Trade

Persistent weakness in exports

Alberta exports in April fell to their lowest since May 2009. Exports totaled $5.5 billion, down 26% year-over-year (y/y). The decline in export values was broad-based, but the largest fall was in energy products (-34% y/y). Non-energy exports were down 10% y/y (Chart 1), primarily from industrial machinery and equipment (-53% y/y). A bright spot was exports of farm and food products which increased 12% y/y.

Chart 1: Broad-based weakness in Alberta exports

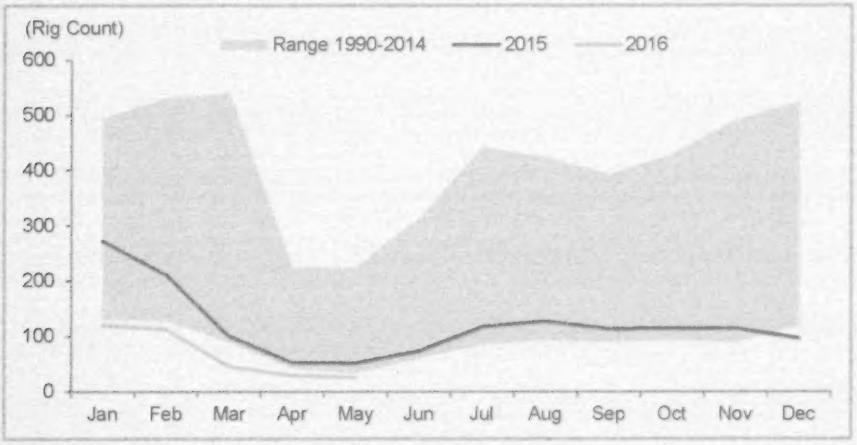
Year-over-year change in Alberta exports



Source: Statistics Canada

Chart 2: Alberta rigs drilling at historical lows

Number of Alberta active rigs drilling



Source: Canadian Association of Oilwell Drilling Contractors

Rigs drilling

Posting new lows

The number of active rigs in Alberta fell to a new historical low in May (Chart 2). There were 25 rigs drilling in the province, down 50% compared with May 2015, and around 70% lower than the previous five-year May average. Only 5% of the available rigs were active, tied with the rate in May 2009, which was the lowest on record. Nationally, rigs drilling were at a record low of 36 in May, a decline of 56% y/y.

In the US, there was an average 407 rigs drilling in May, also a historical low. This was a 54% decline from a year earlier.

Metres Drilled

A weak first quarter

Drilling activity across Alberta remained weak in March, as conventional activity continued to fall. A total of 415,242 metres were drilled in Alberta, a 26% y/y decline. Year-to-date (YTD), metres drilled was down 36%, led by conventional oil (-51% YTD) and natural gas (-37% YTD). Metres drilled for bitumen, however, were up 9.8% YTD. Despite the decline in activity, the average number of metres drilled per well was 3,519 in March. This was the second highest level on record and contributed to a 9.1% YTD increase.

Rail carloadings

Weak energy activity pulls down carloadings

There were 161,201 rail carloadings in Western Canada in March. This was 4,562 fewer rail carloads than March 2015. The year-over-year decline in carloadings stemmed from energy products, which fell by 5,515. Crude

and fuel oil carloadings fell by almost one-quarter from a year prior. Coal carloadings also made up a significant portion of the decline, down 8.2% y/y. Wood products, however, experienced an increase in carloadings (+14% y/y), while agricultural and food were up 1.5% y/y.

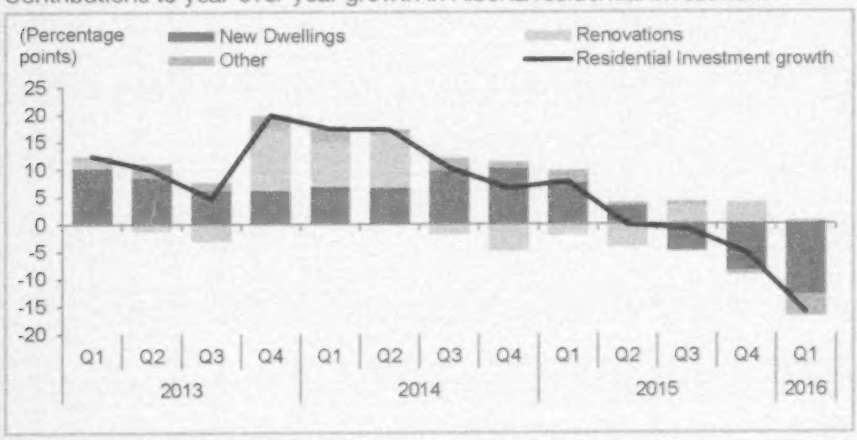
Residential Investment

Weak investment in new dwellings pulls down residential investment

Alberta residential investment in the first quarter of 2016 totaled $4.0 billion, a three-year low. Year-over-year, investment was down 16% (Chart 3). This was the largest decline since the third quarter of 2009. Investment in new dwellings (-23% y/y) accounted for most of the weakness. With the exception of apartment investment which was up 6.3% y/y, all other dwelling types saw declines. Renovations in Alberta continued to be resilient, up by 2.0% y/y.

Chart 3: Declines in investment in new dwelling pulls down total investment

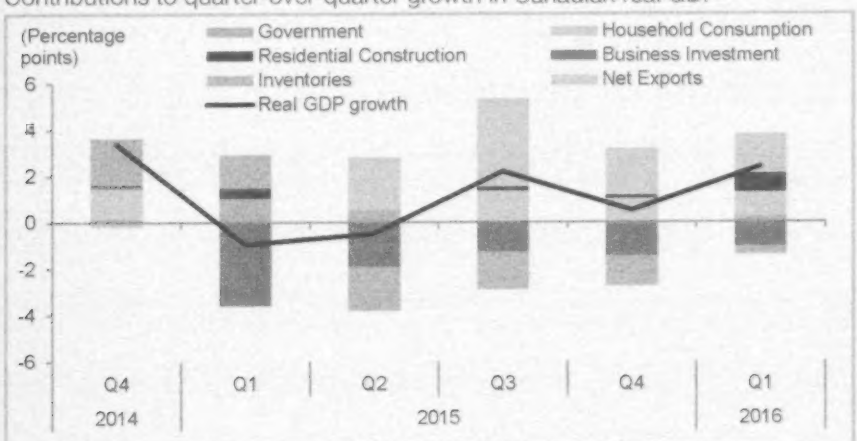
Contributions to year-over-year growth in Alberta residential investment



Source: Statistics Canada

Chart 4: Exports and household consumption push up Canadian real GDP

Contributions to quarter-over-quarter growth in Canadian real GDP



Source: Statistics Canada

Canadian Real GDP

Improvement to start 2016

Canadian real GDP growth in the first quarter was a moderate 2.4% (annualized). This was the strongest growth in five quarters, after a weak performance in 2015 (Chart 4). Gains were led by growth in exports (+3.8% y/y), household consumption (+2.2% y/y), and residential construction (+3.9% y/y). Growth in exports was led by motor vehicles and parts. Business investment and inventories, however, continue to weigh on GDP. Investment in both non-residential structures (-15% y/y) and machinery and equipment (-8.4% y/y) were down. Imports rose mildly after seeing three quarterly declines, modestly offsetting the strong gains in exports.

US Labour Market

Weak job growth in the US

US non-farm payroll employment increased by a scant 38,000 in May. This was the fewest number of jobs added in over five and a half years. The jobs numbers for March and April were also revised down by 59,000 jobs. The headline jobs number included a sharp 35,000 decline from a strike in a major telecommunications company, but weakness was fairly broad based. Employment continued to decline in mining, manufacturing and construction industries. Growth in services also slowed. Despite the weak jobs report, the unemployment rate fell to 4.7%, the lowest level since November 2007. This was due to a 0.3% drop in labour force participation from April.

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.